



Will Santa get his e-mails – Retailers' IT systems and software is critical during this festive period

It's that time of year again; mulled wine, turkey in abundance and if not the sound of sleigh bells it is certainly a time when retailers want to hear cash registers ringing. The busiest time for retailers every year is in the lead up to Christmas, and whilst they may be insured for the traditional perils of fire and theft, are they covered for their IT risks?

Dependence on technology means that those looking to do most business over the coming weeks and into the January sales cannot afford to lose their IT systems. The reliance on "Point of Sale" technology, stock management systems, and credit card payments, as well as web sites for online retail mean that the threat landscape for retailers has changed.

What are the consequences to a business if its cash registers fail and transactions can't be processed for an hour, a day, a week due to the introduction of a virus, or this effects the stock management system and the shelves are empty with goods still sitting in the warehouse? Loss of a website could mean that customers use a competitor to buy what they need. In addition this is also a time where there is a heightened activity by criminals looking to exploit weaknesses in systems, whether directly by scamming cards or more invisibly from another location and accessing personal details.

Under traditional commercial combined policies there is no cover for the costs to the business of repairing damage caused to systems that is not caused by a physical peril. It follows that there is also no cover for the consequential losses.



Traditional Retail

The more traditional retailers rely on a footfall of customers coming through their stores and purchasing their Christmas goods. From presents for the kids, to the food for Christmas Dinner, consumer's habits have changed so that the majority of customers are now paying by a card of some sort. If the card payment system becomes inoperative or compromised in any way then the ability of stores to trade will be severely affected.

In addition, if customers find themselves victims of crime, this may mean retailers could also be on the receiving end of compensation claims and notification expenses, as well as having to provide credit monitoring and cost of compliance with the regulator. See the text box for some examples.

Michaels Stores suffer customer action after 90 pin pads are tampered with.

In May this year giant US retailer Michaels Stores discovered that at least 90 PIN pads had been tampered with and thieves were able to skim card details and pin information. Threat of legal action has already commenced with some claims running into thousands of dollars (<http://www.infosecurity-magazine.com/view/17917/theft-of-michaels-customer-card-numbers-extends-nationwide>).

This follows on from the \$40M settlement by TJ Maxx to customers after it was discovered their systems were hacked and customers credit and debit card information was stolen. http://www.bankinfosecurity.com/articles.php?art_id=648

Managing the supply chain is also critical at this time of year. Whilst many retailers know who their suppliers are and have taken steps in mitigating risks, a failure in the stock systems can result in insufficient supply or goods are isolated in the wrong place. The increased reliance on technology to manage these supply chain matters means that this is a key vulnerability for many stores. A collapse in the stock management systems can mean that sales opportunities are missed for example, or lead to perishable items having to be destroyed.



Online Retail

The advancement of technology has seen a paradigm shift in how people actually make purchases. Avoiding Christmas crowds and a possible repeat of last years weather means more and more people will be looking to do much of their shopping online this year.

Manic Monday

On Monday 28th November it is estimated that online Christmas shoppers will spend almost £424 million in total. As the festive period ramps up it is expected that this is to be followed by further spends of around £418 million and £406 million on the 4th and 5th December respectively. This research carried out by Centre for Retail Research, Nottingham and commissioned by Kelkoo in its article "*Christmas Spending in the United Kingdom 2011*" estimates that one fifth of Christmas budgets will be spent online a total of £13.4bn and an increase of 16.3% from 2010. A further £1.64bn will be spent on mobile shopping.

For retailers selling online or pure web-based organisations keeping their website running is critical. Protecting customers information is equally vital, the increased distribution channels also means increased opportunities for criminals.

Reputational Risk – Protecting the Brand

For both traditional retail and online business the consequential loss of business can be often quantified by reference to previous years trading, however the reputational cost to a business can often be far greater still and have a long term impact. It has been shown that following a technology breakdown, whether deliberate or accidental, there can be substantial loss of share price, sales and market share. It is therefore important to react quickly to any incident that could impact the brand value of the business

Insurance and Risk

Whilst solid risk management, back up and redundancy can mean these technology based perils can be mitigated, there is always chance for the unexpected whether through criminal activity, accidental introduction of a virus or plain human error.

With the proliferation of online losses in the headlines it is important that we talk to our clients about their issues. Clients will continue to lock their doors and put on their alarms yet still by insurance for fire and theft, they should also be taking the same attitude to the IT risks and exposures.

As well as providing cover for claims made by third parties we can arrange policies that will help meet costs incurred by a business including; notification & credit monitoring costs, rectification of the fault as well as business interruption for loss of profits or revenue. We can also build in a degree of reputational cover in the form of PR costs to help protect a client's brand.

We have a number of solutions that we can provide to our clients with bespoke Oval wordings. If you would like further information on this please contact me

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